

Div %	Div \$	Current Price	Current Multiple	Market Cap	Beta
NA%	NA	\$357.64	9.5 (P/S)	\$34.7B	1.5

Analyst Report: Palo Alto Networks

TICKER: PANW

EXECUTIVE SUMMARY

Palo Alto Networks, Inc. is a cyber security service provider. The Company offers security platform that empowers enterprises, service providers and government entities to secure all users, applications, data, networks and devices with comprehensive visibility and context continuously across all locations. The Company delivers cybersecurity products covering a broad range of use cases, enabling its end-customers to secure their networks, remote workforce, access to the service edge, branch locations, public and private clouds, and to advance their Security Operations Centers (SOC). The Company delivers its solutions in three fundamental areas: Secure the Enterprise, Secure the Cloud and Secure the Future.

COMPANY HIGHLIGHTS

InSight is expecting earnings of \$6 per share in 2021 after the company buys back shares. Total billed was +\$1.22 billion, or a +20% growth clip. We expect continued growth of 22.6% in FY 21; and likely 18.4% in FY 22. FY 20 saw an expansion of 17%. The key sources of growth have been in the expansion of the customer base and in the base revenue per customer. The first part of the year has held some fantastic hallmark wins that will bode well for PANW in the year to come. High profile sales of other software and service providers in the technology space. Prisma Cloud is coming into its own right with Prisma Cloud 2.0. The four new modules are capable of rapidly expanding the cloud security coverage in a number of areas. InSight expects Prisma to play a key roll in the remote working and distributed workforce security requirements brought in scale by the pandemic, but we see as part of the long term landscape of technology companies. We expect the acquisition pace to maintain in 2021 and 2022 with several tuck-in acquisitions it can bolt on to the core security suite. Similar to Aporeto, PureSec, and Zingbox which have already been announced.

- InSight thinks there is a very achievable margin rate of +75% after achieving that mark in 2020. We think that mark can be held in the '22 and '23 as well.
- Margin is being expanded as the result of the past acquisitions and an expansion of service and software revenues. This is partially offset by lower initial margins from the recent launches, and we expect those margins to smooth out.
- The rollout of 5G will be a unique new landscape of data and security challenges for the world to come. We think that PANW is uniquely positioned to take advantage of the change. PANW's launch of the super scale K2-Series, is intentionally designed for 5G network deployments by service providers.
- We think PANW stands at the confluence of three major themes we are embracing, data storage and security, Internet of Things (IoT), and the 5G connectivity. We are positioned to be a utility like suite of services in an ever increasingly digital landscape with routinely mounting security threats.
- We view technology security as an evergreening technology, and the source of repeated forced attention with every breach.
- PANW currently pays no dividend, but we are content with the rate of share buyback and the recent acquisitions as a use of free cash flow.

Metric	InSight Score (out of 5)
Solvency Debt Service and Income	
Corporate Efficacy Return on Equity, Historic Growth	
Growth Revenue Growth, Cash Flow	
Return of Capital Dividend Growth, Buybacks	
Total Return Aggregate vs. Current P/E	





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SECTOR OVERVIEW

Palo Alto Networks is in the Information Technology category and the Software subgroup, but it would qualify as a large cap but is not part of the SP500. It has yet to meet the profit requirement for inclusion but as such, inclusion of PANW represents a bet outside of the grouping completely. If it were included it would be in the 180-200 range of companies by market cap. We think that it's market cap and non-inclusion in the SP500 is a unique exposure we embrace, but does cause for some of the undue volatility. Its non inclusion in the sector provides a unique and deliberate exposure to the company's performance not captured in many broad indexes.

IMPACT INSIGHT (ESG)

A Rating (Low Profile, Hallmark, Low Risk)

Environmentally - Palo Alto has committed to becoming carbon neutral by 2030, this is a mark we feel is achievable but paggard aming it peers who have already made more progress on similar efforts. Though it should be noted, that PANW carbon footprint is already much smaller than its peers. We think it's a positive indicator that they have acknowledged this and a better sign that they have joined up with larger technology companies in the silicon valley to make these partnerships with utility providers a reality.

Socially - Palo Alto Networks is routinely awarded as a top place to work broadly and for several minority groups. This is a positive external indicator. The board is less than 20% women and the management team is 30% women, these are typical for the industry, but we would like to see that come more into balance. Socially, we think PANW is a low risk, and at worst an average agent for social awareness and change and many of the elements for the rank and file employees are encouraging.

Governance - PANW follows all GAAP provisions, reports earnings constantly and without error. There are few red flags in the governance and the reporting practices of PANW. We think this is a low profile risk for governance. Audits, protocol and process are all well documented and available to analysts.

DISCLAIMER:

Past performance is not an indication of the future performance and should not be relied upon as such.

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